STATE OF VERMONT
PUBLIC SERVICE BOARD
DOCKET NO. 6107

IN THE MATTER OF THE PETITION OF
GREEN MOUNTAIN POWER CORPORATION
FOR APPROVAL OF A 12.9% INCREASE IN RETAIL RATES

DIRECT TESTIMONY OF MICHAEL D. DIRMEIER
ON BEHALF OF THE
DEPARTMENT OF PUBLIC SERVICE

SEPTEMBER 18, 1998

GREEN MOUNTAIN POWER CORPORATION
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Prefiled Testimony
of
Michael D. Dirmeier

I. STATEMENT OF QUALIFICATIONS

Q. WHAT IS YOUR NAME AND ADDRESS?

A. My name is Michael D. Dirmeier and my business address is 456 Main Street, Ridgefield, Connecticut, 06877.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a principal in the management consulting firm of Georgetown Consulting Group, Inc.

Q. WHAT IS THE NATURE OF THE SERVICES PROVIDED BY YOUR FIRM?

A. Our firm offers services in financial and management consulting, principally in the area of utility regulation. Members of our firm have performed analyses of petitioners' testimonies and have presented testimony before many commissions and boards in regulatory cases involving telephone companies, air carriers, pipeline companies, and electric, gas and water utility companies.

Q. WHAT IS YOUR EXPERIENCE INVOLVING PUBLIC UTILITIES?

A. I have analyzed utility companies' testimonies, managed the preparation of testimony or testified in the following jurisdictions: Alabama, Arkansas, Colorado, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Vermont, Virginia, the U.S. Virgin Islands, the District of Columbia, the Federal Energy Regulatory Commission and the U.S. Nuclear Regulatory Commission. The Appendix to this testimony provides a complete listing of the jurisdictions and proceedings in which I have been involved.

Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?

A. Before joining Georgetown Consulting Group, Inc., I was employed by Touche Ross and Co. and the Bendix Corporation. My consulting experience includes operations reviews, design and implementation of procedures and product-line analysis. I have prepared and made presentations regarding the Tax Reform Act of 1986. My corporate work included capital budgeting, investment analysis, financial modeling and planning, analysis of acquisitions and divestitures, and preparation of financial reports for the Board of Directors.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from Texas A&M University in 1971 with a Bachelor of Science Degree in physics. I received a Master of Business Administration Degree in finance from the University of Chicago in 1973. In 1979, I received a Certificate in Management Accounting, which is a professional certification for management accountants and financial managers awarded by the Institute of Certified Management Accountants.

I am a member of the Institute of Management Accountants and the National Association of Accountants.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. MR. DIRMEIER, WHAT IS THE SCOPE AND PURPOSE OF THIS TESTIMONY?

A. This testimony reviews and analyzes Green Mountain Power Company's testimony and support for a 12.93% increase in retail rates.

The purpose of this testimony is to present to the Vermont Public Service Board ("VPSB" or "Board") the appropriate adjusted rate base, return on rate base, cost of service and revenue requirement for Green Mountain Power Company.

In determining the Company's revenue requirement, I have incorporated the recommendations of other DPS witnesses, as follows:

1. William Steinhurst. The testimony of Dr. Steinhurst addresses the prudent costs to be included in rates pursuant to GMP's contract with Hydro-Quebec ("HQ"). He also recommends an increase in expense for transmission and distribution maintenance.
2. Katherine E. Parlin, Philip H. Mosenthal, David F. Lamont and Scudder H. Parker concerning the appropriate DSM and ACE cost deferrals and amortizations. Mr. Lamont also testifies concerning GMP's power costs and power cost adjustments proposed by the Department.

In developing my testimony, I have reviewed and analyzed GMP's application, direct testimonies and exhibits, workpapers, and responses to requests filed by the Department as well as other intervening parties. In addition, I have attended and/or reviewed a number of the depositions taken of GMP witnesses.

Q. MR. DIRMEIER, WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, it was.

Q. HAVE YOU PREPARED EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes, I have. Exhibit MDD-1, Schedules 1 through 24, were prepared by me or under my direct supervision and control.

III. SUMMARY OF FINDINGS AND CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS IN THIS PROCEEDING.

A. In this proceeding, Dr. Steinhurst has determined that $22.4 million of cost associated with Hydro-Quebec should be excluded from GMP's retail rates. However, in order to provide additional cash relief to the Company, the Department's final recommendation includes only a $9.5 million disallowance of Hydro-Quebec costs. Exhibit MDD-1, Schedule 1 page 1 provides a summary of the cost of service including the fully $22.4 million disallowance. With that disallowance and all other adjustments reflected in this testimony, GMP's retail rates should be reduced by $5,764,000, or 3.575%.

Exhibit MDD-1 Schedule 1 page 2 and the remaining schedules incorporate the alternative $9.5 million Hydro-Quebec power cost disallowance. With this disallowance:

1. The appropriate adjusted rate base to be used for ratemaking purposes is $184,668,000, which is $8,644,000 below GMP's proposed adjusted test year rate base of $193,312,000 (see Exhibit MDD-1, Schedules 2 and 6).

2. The overall rate of return proposed by GMP in this proceeding is 9.325%.[\1] Adjustments reflected in this testimony include corrections to the costs of debt and preferred stock to reflect the effect of GMP's proposed adjustments to capital structure. In addition, the cost of equity filed by GMP is reduced by 25 basis points based on the testimony of Mr. Parker.

[\1] Exh. AJK-1 page 4.

In combination, these adjustments reduce the cost of capital to 9.190% (see Exhibit MDD-1, Schedule 3).

3. The appropriate adjusted retail cost of service in this proceeding is $168,469,000, which is $13,597,000 lower than GMP's proposed retail cost of service of $182,066,000 (see Exhibit MDD-1, Schedule 1).

4. Comparison of the retail cost of service of $168,469,000 to GMP's annualized revenue from ultimate consumers of $161,221,000 indicates the need for an $7,248,000 million retail rate increase in this proceeding. The recommended annual increase of $7,248,000 million represents a revenue increase of 4.50%, rather than the 12.930% increased reflected in GMP's filing (see Exhibit MDD-1, Schedule 1).

Q. MR. DIRMEIER, HAVE YOU PREPARED A TABLE INDICATING THE REVENUE REQUIREMENT EFFECT OF THE COST OF SERVICE ADJUSTMENTS THAT ARE REFLECTED IN YOUR TESTIMONY?

A. Yes, I have. The following table begins with the Company's claimed $20,845,000 requirement for a retail rate increase, and reflects the effect of each adjustment reflected in my testimony:

	($000s)
Revenue requirement per GMP	$ 20,845

<u>Recommended adjustments</u>	
Cost of debt and preferred stock	(44)
Cost of equity	(391)
1998 and 1999 capital projects	(17)
1998 plant retirement correction	(85)
Average 1999 depreciation reserve	(672)
35 GMD depreciation reserve - 1988	(3)
Deferred regulatory commission costs	(93)
Below-the-line prepayments	(29)
Deferred credits - deferred compensation	(17)
Insurance recovery	(208)
<u>Payroll expense</u>	
Number of employees	(931)
1999 salary increase percentage	(124)
<u>PITW expense</u>	
Number of employees	(4)
Medical inflation factor	(171)
Effect of payroll expense adjustment	(77)
Deferred compensation correction	0
FERC headwater expense	(14)
Affiliate investment	(64)
Property taxes	(278)
DSM / ACE	(68)
Purchased power costs	(1,750)
T&D Maintenance	1,026
Hydro-Quebec disallowance	(9,583)

Reduction in revenue requirement	$ (13,597)

Revised revenue requirement	$ 7,248
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IV. RATE BASE AND COST OF SERVICE

A. Cost of Debt and Preferred Stock

Q. PLEASE EXPLAIN WHY IT IS NECESSARY TO ADJUST THE COSTS OF DEBT AND PREFERRED STOCK FILED BY GMP IN THIS PROCEEDING.

A. GMP's capital structure and cost of debt are provided on Exh. AJK-1 page 4, attached to Mr. Kvedar's testimony. That exhibit includes *pro forma* adjustments that reduce the amount of debt and preferred stock in capital structure. However, in Mr. Kvedar's workpapers, where the costs of debt and preferred stock are computed, those cost rates include all of the Company's debt and preferred stock *before* the *pro forma* adjustments. Therefore, there is an inherent mismatch in Mr. Kvedar's cost of capital exhibit, in that the capital structure excludes debt and preferred stock that are included in the costs of debt and preferred stock.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. In request DPS 3-4, the Department asked GMP to provide a computation of the costs of debt and preferred stock reflecting the effect of the adjustments to capital structure reflected in his testimony on the annualized cost. That response indicates that the cost of long term debt, consistent with the long-term debt in *pro forma* capital structure, should be 7.665% rather than the 7.693% included in Mr. Kvedar's exhibit. Similarly, the cost of preferred stock, consistent with the preferred stock balance in *pro forma* capital structure, should be 7.768% rather than the

7.850% reflected on Exh. AJK-1 page 4. The adjusted costs are reflected on Ex. MDD-1 Sch. 3 attached to this testimony.

Q. DOES YOUR COMPUTATION OF COST OF SERVICE INCLUDE ANY OTHER ADJUSTMENTS TO COST OF CAPITAL?

A. Yes, it does. DPS witness Parker has recommended that the cost of equity be reduced by 25 basis points. That adjustment is included in my computation of cost of service, also on Ex. MDD-1 Sch. 3.

B. Post-Test Year Projects

Q. HAS GMP PROPOSED ADJUSTMENTS TO RATE BASE FOR CAPITAL PROJECTS OCCURRING AFTER THE TEST YEAR?

A. Yes, it has. Mr. Kvedar's Exhibit AJK-1 page 7 reflects a total increase in plant in service (before reduction for accumulated depreciation) of $38,807,000. This adjustment consists of the following major components.

($000s)	
$ 6,881	increase in plant in service to reflect the excess of year-end 1997 plant over average balances during 1997.
20,278	increase in plant in service to reflect 1998 projected plant additions. This adjustment also transfers the year-end 1997 balance of Construction Work in Progress ("CWIP") from that account to plant in service for *pro forma* ratemaking purposes.[\2]
5,425	increase in plant in service to reflect one-half of projected 1999 plant additions
-218	the projected 1999 depreciation effect of 1998 retirements
820	adjustment to include 35 Green Mountain Drive in rate base
5,621	projected average 1999 balance for the Searsburg Wind Project, in excess of the average test year balance for that project.

$ 38,807 Total	
======	

Q. SHOULD THE BOARD INCLUDE ALL OF THE PROJECTS CLAIMED BY GMP IN ITS DECISION CONCERNING RATE BASE?

A. No, it should not. A number of the projects included in GMP's adjustments are unjustified or otherwise are inappropriate for inclusion in rate base. Specific adjustments include:

1998 facilities projects (See. Exh. JAS-1 page 1)

GMP has requested $10,000 to rekey its master lock system. While this is a small amount, it should not be included in rates at this time. During his August 5, 1998 deposition (pages 30 and 31), Mr. Soter testified: (i) GMP has issued no RFP or contract for this work; and (ii) he was

[\2] See GMP workpapers RB 1-7 through RB 1-10.

unaware of any problems such as theft or invalid entry as a result of the existing system. Mr. Soter also testified that GMP has contacted the existing lock maker to determine the most cost effective means to re-pin the existing locks. Finally, page 5 of Mr. Soter's testimony indicates that the deficiencies in the current system have been a concern since 1987.

The fact that the current master lock system has been a concern for over 11 years indicates that this is not a pressing project. The information provided by the Company does not establish that the Company is proceeding with this project, or that the expenditures are known and measurable. Accordingly, this project should be excluded from the cost of service (see Ex. MDD-1 Sch. 10).

1999 production projects (See. Exh. JAS-1 page 3)

GMP has included $150,000 of expenditures in 1999 for "pressure grout dam" at plant 18. During his deposition (pages 20 - 22), Mr. Soter testified that there is no definitive schedule for release of the RFP for this project and no contract has been released. With regard to his view concerning whether the expenditures are known and measurable, Mr. Soter testified, "[T]he Plant 18 projects are warranted and they need to be done, therefore, they are planned for 1998 (sic) and they are included in the rate case. Therefore, they are known and measurable in my perspective."

The lack of a schedule and any firm commitment to issuing an RFP or performing this work indicates that the grout dam project is not known and measurable. Therefore, the Company's request to include $150,000 in 1999 expenditures for this project should be rejected (see Ex. MDD-1 Sch. 10).

Similarly, GMP has included $300,000 in 1999 expenditures to rebuild the C-1 gas turbine engine at plant #5 in Berlin. Pages 20 and 21 of Mr. Soter's testimony addresses continuing concerns that GMP has had with this plant. In fact, this docket marks the third time that the Company has sought funds to refurbish the engine. Page 54 of the Board Order in Docket No. 5983 states:

> For the second item, the Company requests $300,000 to refurbish the compressor engine at Plant #5 in Berlin. GMP has known since 1995 that this engine was in need of repair, yet it has not yet undertaken those repairs. As of January 1998, a contract for the repair of the engine at Berlin plant # 5 had not yet been signed. We cannot accept this proposed addition as a known and measurable change. We will make an adjustment to rate base of $300,000 for removal of this project from the Company's rate request. The Company can always request cost recovery for these, or similar projects, in the future when their certainty is more apparent.

On page 22 of his testimony, Mr. Soter claims that corrective maintenance of the engine is critical to protecting the generator from catastrophic failure. This claim is belied by the fact that GMP has known at least since 1995 that there were problems and by GMP's failure to budget and repair the plant, irrespective of the disallowance in Docket No. 5983. Notwithstanding GMP's claims to the contrary, GMP's continual failure to act indicates that this project is not known and measurable. Therefore, it should be excluded from rates in this proceeding (see Ex. MDD-1 Sch. 10).

1999 Distribution projects (See page 3 of Mr. Fonte's testimony)

GMP's filing includes a total expenditure of $546,000 to relocate distribution facilities along Shelburne Road. The $534,000 that is projected for 1999 should be excluded from this proceeding. On page 23 of his deposition, Mr. Fonte testified:

> The Agency of Transportation has advised Green Mountain Power formally that the road -- it intends to widen the road. The Agency of Transportation has filed for its Act 250 permit and it is still, I believe, in necessity hearings for all of the things it needs to accomplish a road widening. The agency has put Green Mountain Power on notice that it hopes to issue its first piece of improvements to bid in 1999. Engineering has been working to prepare designs to accommodate the road widening, and we have also been working to obtain the various easements we need for the facilities to be relocated. And we also attend meetings periodically with the Agency of Transportation on project updates.

Thus, in this instance, "known and measurable" is based on an announced intention to widen the road and the Transportation Agency's "hope" that work would begin in 1999. This does not rise to level of known and measurable. All that is known is that a project may happen at some time in the future, but the timing is not clear. The Board should reject the Company's request concerning Shelburne Road because those expenditures are not known and measurable at this time (see Ex. MDD-1 Sch. 10).

Q. DO YOU RECOMMEND ANY OTHER ADJUSTMENTS TO THE COMPANY'S ADJUSTMENTS FOR CAPITAL PROJECTS?

A. Yes, I do. In response to DPS 1-126, GMP identified revisions to the timing and amount of expenditure for three of its capital project requests, as follows:

	1998	1999	
As filed			
Distribution 97111	$ 200,000	$ 0	Fonte page 3
Transmission 97109	100,000	140,000	Fonte page 2
98412 Banner Completion	900,000	0	Julius page 2
	$ 1,200,000	$ 140,000	
Revised			
Distribution 97111	$ 100,000	$ 100,000	DPS 1-126
Transmission 97109	240,000	0	DPS 1-126
98412 Banner Completion	1,064,923	0	DPS 1-126
	$ 1,404,923	$ 100,000	
Revision	$ 204,923	$ (40,000)	

I have reflected these revisions in my computations, on Ex. MDD-1 Sch. 10.

Q. HAS GMP INDICATED THE NEED FOR A CORRECTION TO PLANT IN SERVICE RELATED TO THE PROJECTED EFFECT OF PLANT RETIREMENTS?

A. Yes, it has. The computation of *pro forma* plant in service on GMP workpaper RB 1-2 includes a $218,000 reduction for 1998 retirements. In response to DPS 3-20, GMP stated:

> It appears as if we have accounted for retirements in the accumulated depreciation for 1998, see COS 5-6, but neglected to reduce utility plant by the same amount. We will

> make this adjustment to reduce plant by $860,000 ((22,994+48,675)*12). The $217,591 is representative of a reduction to plant depreciation for 1999. It is reflected appropriately in the depreciation expense adjustment and the accumulated depreciation adjustment.

During his August 19, 1998 deposition (page 19), Mr. Kvedar agreed that whatever adjustment is reflected on GMP workpaper COS 5-6 [$860,000] should also be reflected on GMP workpaper RB 1-2.

To clarify, the depreciation expense accrual for 1998 of $10,109,000 (see GMP workpaper COS 5-6) includes an $860,000 reduction in reserve for salvage and estimated property retirements. That reduction in reserve should also be reflected as a reduction in plant in service, but is not. Accordingly, the $218,000 adjustment reflected as a reduction to plant in service on RB 1-2 should be $860,000. Rate base should be reduced by the difference of $642,000. This adjustment is reflected on Ex. MDD-1 Sch. 11.

C. Depreciation Reserve

Q. DOES GMP'S FILING INCLUDE A REDUCTION TO RATE BASE FOR DEPRECIATION RESERVE THAT IS CONSISTENT WITH THE AMOUNT OF PLANT AND EQUIPMENT THAT CUSTOMERS WILL HAVE PAID FOR IN THE 1999 RATE YEAR?

A. No, it does not.

Q. SPECIFICALLY WHAT DEPRECIATION RESERVE IS LEFT OUT OF THE COMPANY'S FILING?

A. In 1999, customers will be paying depreciation expense to the Company that consists of depreciation on (i) 1997 year-end investment and (ii) capital additions added to service during 1998. The depreciation reserve incorporated in GMP's filing consists of the year-end 1998 depreciation reserve, plus the average 1999 effect of the second item, the capital additions added during 1998. However, the approximately $10 million of depreciation expense that customers will be paying in 1999 to pay for GMP's year-end 1997 investment is not reflected, in any manner, as a reduction in GMP's filed 1999 rate year rate base. Accordingly, GMP's filing requires customer to pay for plant and equipment through depreciation, and to pay a return on the plant and equipment for which they have already paid, by reflecting an inadequate depreciation reserve.

Q. IS GMP'S FILED BALANCE FOR ACCUMULATED RESERVE FOR DEPRECIATION CONSISTENT WITH THE REQUESTED PLANT IN SERVICE?

A. No, it is not. As described earlier, GMP's presentation of gross plant for the *pro forma* rate year includes all of the projected 1998 expenditures and one-half of the projected 1999 expenditures. As a result, and as confirmed by page 16 of Mr. Kvedar's August 19 deposition, the amount of *undepreciated* plant in service included in rate base is a projection of the average balance to be in service in the year 1999.

In contrast to the development of *undepreciated* plant in service, the accumulated reserve for depreciation in GMP's filing as a reduction of rate base includes depreciation expense to be accrued during 1998, and also includes one-half of a small increment of depreciation expense to be booked in 1999 based on 1998 capital additions. GMP confirmed this in response to DPS 3-16. As a result, the Company's computation of accumulated reserve for depreciation, while including a portion of the depreciation expense to be booked during 1999, does not include all such depreciation and substantially understates the reserve that will be outstanding, on average, during 1999.

Taken together, the *undepreciated* plant in service in GMP's filing is a projection of the average balance for 1999 that includes expenditures to be made in 1999. The accumulated reserve for depreciation is, essentially, year-end 1998 with the exception that it includes one-half of the depreciation expense to be booked in 1999 on 1998 capital additions. However, accumulated reserve for depreciation does not reflect one-half of the far larger depreciation expense to be booked in 1999, and included in rates in this proceeding, based on year-end 1997 plant balances. Accordingly, there is a significant mismatch and inconsistency between plant in service and depreciation reserve.

Q. BY FOLLOWING THIS METHODOLOGY, DOES GMP REPRESENT THAT THE RESULTING ACCUMULATED RESERVE FOR DEPRECIATION IN ITS FILING IS AN ACCURATE PORTRAYAL OF THE ACTUAL DEPRECIATION RESERVE THAT WILL BE ON ITS BOOKS IN 1999?

A. No, it does not. On page 20 of his August 19 deposition, Mr. Kvedar responded, "No. I don't think we have made that position."

Q. DID GMP EXPLAIN WHY IT DID NOT MATCH DEPRECIATION RESERVE AND PLANT IN SERVICE?

A. Yes, it did. In response to DPS 3-16(b), GMP was asked:

> Please explain why the additions to reserve balance in 1999 include no effect for depreciation expense booked in 1999, other than for the expense on 1998 plant additions. In other words, why doesn't depreciation reserve in 1999 increase, in addition to the above, by one-half of the depreciation expense that will be booked in 1999 based on plant in service as of the beginning of 1999?

GMP responded:

> The method employed to calculate the accumulated depreciation is based on the Supreme Court decision from Docket No. 5532.

In other words, while GMP had the opportunity to set forth a rationale for its approach, it simply responded that it was following a Supreme Court decision.

Q. HOW WAS DEPRECIATION RESERVE DEVELOPED FOR RATEMAKING PURPOSES PRIOR TO THE SUPREME COURT DECISION?

A. Let me first preface my answer by indicating that there are three years under consideration in this rate case. The first is the "test year," which reflects actual per books amounts for expenses and average balances for rate base for the test year ending December 31, 1997. Next, there is the "interim year," which reflects pro forma adjustments based on projected 1998 experience. Finally, there is the "rate year," 1999, which includes average plant in service adjustments for expenditures in 1999.

In his August 19 deposition (pages 19 and 20), Mr. Kvedar explained that in Docket Nos. 5428 and 5532, prior to the Supreme Court decision, GMP did not increase the accumulated reserve for depreciation by depreciation booked during the interim year (1998 in this proceeding). After Docket No. 5532, the DPS appealed the Board's ruling, which adopted the Company's approach. The Supreme Court affirmed the Department's position. Consequently, GMP has included interim year depreciation expense in its development of the *pro forma* accumulated reserve for depreciation.

Q. DID THE SUPREME COURT ADDRESS THE ISSUE OF RATE YEAR DEPRECIATION IN ITS ORDER?

A. That does not appear to have been an issue, based on the copy of the Supreme Court decision provided in response to DPS 2-263.

Q. ARE PRINCIPLES ESPOUSED IN THE SUPREME COURT DECISION RELEVANT TO THE TREATMENT OF RATE YEAR ACCUMULATED RESERVE FOR DEPRECIATION?

A. Yes. On page 2 of its decision, the Court stated:

> The Board seeks to establish utility rates for the immediate future that will allow investors a reasonable return without overcharging the ratepayers.

In addition, the Court quoted the testimony of the DPS witness, as follows:[\3]

> Interim accumulated depreciation is "known and measurable" with absolute certainty. The Company has a certain level of plant in service at the end of 1990. The Company's rates currently include depreciation expense on this plant which will be recovered in 1991 . . . . [T]his is known with certainty and this fact must be reflected in the proforma rate base to prevent over recovery of plant which is already paid for.

Finally, at page 6 of its decision, the Court explained its reasoning:

> The essential reason to apply the "known and measurable change" principle to the test year rate base is that once customers have, in effect, returned a portion of a utility's investment, they should not be required to pay for that portion a second time, once as depreciation expense and again as a return on plant value which had not been correspondingly reduced to reflect the "return of" the investment through depreciation expense payments.

Each of the above statements is equally true of 1999 depreciation expense, which GMP has failed to include as a rate base deduction. My proposed approach uses the same logic the Court used on interim year depreciation reserve additions and applies it to test year reserve additions.

[\3] Page 3 of Supreme Court decision, page 5 of GMP response to DPS 2-263.

The goal of regulation continues to be to establish rates for the near future that will allow investors a reasonable return without overcharging the ratepayers. The logic of the Court's decision, which favors deducting interim year <u>and rate year</u> depreciation expense from the rate base, is that requiring customers to return a portion of the utility's investment <u>and</u> to a pay a return on the returned portion, at the same time, amounts to an overcharge. Customers should not have to pay both.

Q. ARE THE ADDITIONS TO DEPRECIATION RESERVE IN 1999, BASED ON PLANT IN SERVICE IN 1997, KNOWN AND MEASURABLE?

A. Yes, they are. With respect to 1999 gross plant, it is possible to project and believe that GMP will increase its plant in 1999 by the level of expenditures that are projected for that year. But those additions to plant are not absolutely known, certain or measurable because they represent expenditures that have not occurred. Nonetheless, they are included in rate base as reasonable projections of additions that GMP will make as an ongoing company. In fact, in view of the Company's financial concerns, those additions may be much less than are reflected in GMP's filing or in my testimony.

Far more certain than the speculative 1999 plant additions, however, is the fact that GMP will book depreciation in 1999 on plant that is already in service at the end of 1997. There is nothing speculative about that plant investment, or the need to depreciate it in 1999. The only way that the depreciation reserve increase that I am proposing will not occur is if GMP were either to sharply cut its depreciation rates, or to sell the vast majority of its plant and equipment, prior to the beginning of 1999. Neither of these actions should be deemed likely, and both would result in a greater reduction to cost of service than that reflected in my testimony.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.

A. The Board should determine that it is known with certainty that depreciation reserve in 1999 will increase, not only because of depreciation booked in 1999 on 1998 plant additions [which reserve additions have been reflected in accumulated depreciation reserve on GMP workpaper COS 5-5], but also because of depreciation booked in 1999 on year-end 1997 plant. As stated in the testimony of the DPS witness that is quoted in the Supreme Court decision at page 5 of DPS 2-263, "This fact must be reflected in the proforma rate base to prevent over recovery on plant which is already paid for." That statement was true with regard to interim year depreciation reserve additions, and it also is true with regard to rate year depreciation reserve.

Q. HOW DID GMP DEVELOP THE ADJUSTED RESERVE FOR DEPRECIATION REFLECTED IN ITS FILING?

A. The *pro forma* accumulated reserve for depreciation reflected in GMP's filing is $98,358,000 (see Exh. AJK-1 page 7). Starting with year-end 1997 depreciation reserve, the following table develops the Company's *pro forma* rate year balance of $98.358 million:

Green Mountain Power Corporation
Pro Forma Accumulated Reserve for Depreciation
per GMP Filing

12/31/97 balance		$ 87,689,451	COS 5-5
1998 expense	$ 842,403		COS 5-5
Months per year	12		

Reserve added in 1998	$ 10,108,835	10,108,835	

Year-end 1998 reserve balance		$ 97,798,286	COS 5-5
1999 expense on 1998 additions	$ 1,337,241		COS 5-4
1999 expense reduction on 1998 retirements	(217,591)		COS 5-4

$ 1,119,650			
One-half for six month average		559,825	

Pro forma reserve balance per GMP		$ 98,358,111	COS 5-5 &
	=========	Exh. AJK-1 p.7	

According to GMP's filing, the depreciation reserve balance increases by $10.1 million in 1998, but only by $1.12 million in all of 1999. In 1999, customers are being asked to pay for almost $11 million in plant, but only getting credit for $1 million of their $11 million payment. Failure to reflect an adjustment of $5 million[\4] results in customers having to pay twice for that amount of plant: once through depreciation expense, and a second time for rate of return requirements on plant already paid for.

Q. WHAT ADJUSTMENT IS INCORPORATED IN YOUR COMPUTATIONS?

A. On Ex. MDD-1 Sch. 11 lines 17 and 18, I increase the depreciation reserve by $5,055,000 to reflect properly, on an average basis, the depreciation expense that customers will be paying to GMP in 1999.

Q. WITH YOUR RECOMMENDATION, WHAT IS THE RECOMMENDED DEPRECIATION RESERVE?

A. As shown on Ex. MDD-1 Sch. 2 Line 41, the recommended reserve is $103,452,000.

Q. HAS GMP PROVIDED A WORKPAPER THAT CONFIRMS THAT AMOUNT?

A. Yes, it has. While GMP may not agree that an adjustment should be made to depreciation reserve to reflect depreciation that customers will be paying in 1999, GMP in response to IBM 8-495 provided a response that projects the average reserve in 1999 at $103,412,528.

[\4] One-half of annual depreciation for half-year convention.

Q. DOES YOUR DEPRECIATION RESERVE ADJUSTMENT INCLUDE ANY AMOUNT FOR DEPRECIATION OF CAPITAL ADDITIONS MADE IN 1999?

A. No, it does not. GMP's practice is to begin depreciation in the year after a project goes into service. Accordingly, the Company's filing, and my computations, both include no depreciation expense for 1999 capital additions and no accumulation of depreciation reserve relating to those additions.

Q. IF THE BOARD REJECTS YOUR RECOMMENDATION CONCERNING DEPRECIATION RESERVE, IS THERE AN ALTERNATIVE RECOMMENDATION THAT THE BOARD SHOULD CONSIDER?

A. Yes, there is. As indicated on the table on page 9 of this testimony, GMP has increased its plant balance by $5,621,000 to reflect the average rate base effect of projected 1999 plant additions. If the Board determines that it is inappropriate to include known 1999 additions to depreciation reserve, then it also should exclude projected plant additions in the same period. As it is, the $5.054 million adjustment that I recommend is the smaller amount.

Q. ARE THERE ANY OTHER ADJUSTMENTS TO DEPRECIATION RESERVE THAT THE BOARD SHOULD ADOPT?

A. Yes, there are. The amount that GMP has included in rate base for 35 Green Mountain Drive ("35 GMD") should be adjusted to reflect depreciation accruals on that property in 1998 as well as the 1999 half-year adjustment discussed above.

Q. HOW DO YOU REACH THAT CONCLUSION?

A. GMP has included $820,000 in rate base as the average 1997 investment in 35 GMD. Workpaper RB 1-1 indicates that the $820,000 amount includes $101,000 of land and $719,000 for the building cost net of depreciation, and that both amounts are average 1997. GMP workpaper COS 5-1 reflects an adjustment to include $23,774 in annual depreciation for the building and, in fact, the net investment in the building on workpaper RB 1-1 declined by $22,000 during 1997. However, nowhere has the Company reflected the growth in depreciation reserve in the interim year, which is depreciation reserve growth that is included in the Company's filing for all other plant and equipment, for 35 GMD. This is confirmed by the following, from page 12 of Mr. Kvedar's August 19 deposition:

> Q. Can you tell me, where does your filing reflect the growth in depreciation reserve for 35 Green Mountain Drive in 1998?
> A. I don't believe it does.
>
> Q. Could you tell me why it does not?

A. I think that what we -- if I remember correctly, what we included here is the historic test year.

Q. So, did I understand you correctly when you said that you used the historic test year for 35 Green Mountain Drive?
A. Yes. That's what it appears to be, yes.

There is no reason for the depreciation reserve for 35 GMD to be reflected only at the average 1997 value, when all other depreciation reserve in the Company's filing is moved at least to year-end 1998. Therefore, rate base should be reduced by $24,000, to reflect one additional year's growth in depreciation reserve in relation to 35 GMD (see Ex. MDD-1 Sch. 11). The additional half-year to average 1999 is already reflected in the $5 million depreciation reserve adjustment discussed previously.

D. Regulatory Commission Expense

Q. ARE THERE ANY ADJUSTMENTS NECESSARY WITH RESPECT TO GMP'S CLAIMED REGULATORY COMMISSION EXPENSE ADJUSTMENTS?

A. Yes, there are. On page 8 of his deposition of August 21, 1998, Mr. Kvedar testified that the deferred balance and amortization reflected in GMP's filing for regulatory commission expense is overstated. The December 31, 1997 deferred balance, which is part of the cost that GMP seeks to include in rate base and amortize, is $1,054,951. Mr. Kvedar testified that the appropriate test year ending balance should be approximately $825,000. That correction reduces GMP's rate base claim by $191,626, and its amortization expense by $76,650 (see Ex. MDD-1 Sch. 14).

E. Prepayments

Q. EXHIBIT AJK-1 PAGE 7 REFLECTS $1,404,000 OF PREPAYMENTS AS AN ADDITION TO RATE BASE. SHOULD THE BOARD INCLUDE THAT AMOUNT IN RATE BASE?

A. No, it should not. In response to DPS 1-131, GMP indicates that, of the $1,404,000, "$219,204 is for items that are treated below-the-line for ratemaking purposes." If the underlying cost is not included in rates, then neither should be the prepayment of such cost. Therefore, the Board should reduce rate base by $219,204 (see Ex. MDD-1 Sch. 15).

F. Deferred Credit - Deferred Compensation and Other Benefits

Q. ON PAGE 15 OF HIS PREFILED TESTIMONY, MR. GRIFFIN EXPLAINS THAT SOME OF THE "SPECIAL ADJUSTMENTS" REFLECTED ON EXHIBIT AJK-1 PAGE 8 ARE INTENDED TO REMOVE MANAGEMENT INCENTIVE PLAN COSTS AND DEFERRED COMPENSATION FROM RATES. DO THOSE ADJUSTMENTS REFLECT THE PROPER AMOUNTS?

A. While the amounts in the "special adjustments" page appear to be correct, the deferred credit balance relating to deferred compensation and other benefits, which is on Exh. AJK-1 page 7, needs to be changed. In its amended response to DPS 3-28, GMP stated:

> The Company noted a deferred compensation account having a 13-month average balance that we believe was included in rates but not removed from rate base in this filing. We will amend our filing to reduce rate base by $121,333 to account for this discrepancy.

Consistent with the Company's statement, I have reduced rate base by $121,333 (See Ex. MDD-1 Sch. 16).

G. Salary and Wage Increase

Q. WHAT LEVEL OF WAGE INCREASE HAS GMP UTILIZED IN PREPARING ITS FILING?

A. GMP's salary and wage adjustments are based on a 3.75% increase to be granted in 1999.

Q. IS THAT LEVEL OF INCREASE KNOWN AND MEASURABLE?

A. No, it is not. On page 74 of his deposition, Mr. Griffin indicated that the Company had just begun negotiations with its union employees. Page 9 of his prefiled testimony indicates that the 3.75% increase is based on recent projected salary increases of 3.5% to 4% for 1998. Therefore, it does not appear that the wage increase assumed by the Company is known and measurable.

Q. ARE THERE REASONS WHY THE BOARD SHOULD ADOPT A DIFFERENT LEVEL OF WAGE INCREASE?

A. Yes, there are. GMP's financial concerns are well-known, particularly by its employees. The elimination of positions, discussed below, makes it clear that the Company is serious about reducing its costs. However, GMP has to control costs at all levels, including by not increasing salaries and wages by any more than it has in recent years. On page 9 of his testimony, Mr. Griffin states that the bargaining agreement for the past two years has called for increases of

2.5%. The appropriate adjustment in this proceeding, in the absence of better information, should be the same 2.5% increase that has been implemented in recent years.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

A. The salary and wage adjustment reflected in GMP's filing increases expense by $1,004,807. Adjusting that computation to reflect a 2.5% increase reduces the level of increase by $132,962 to $871,845.

H. Elimination of 24 Positions

Q. HAS GMP FILED INFORMATION THAT INDICATES THAT THE PAYROLL ADJUSTMENT INCLUDED IN THE FILING SHOULD BE CHANGED?

A. Yes, it has. In response to DPS 1-125, GMP stated, "There are a few corrections which may ultimately need to be made to the filing, based on information available to date." One of the responses referenced in that response was DPS 1-144.

In DPS 1-144, the Department sought information concerning GMP's efforts to cut costs. In that response, the Company indicated that the payroll adjustment included in the filing was based on the annualized payroll as of March 21, 1998. GMP also indicated that the annualized payroll as of July 4 was $564,376 less than as of March 21, 1998. While this would appear to be the basis for an adjustment and reduction to cost of service, Mr. Griffin, in his deposition of August 18, 1998 (page 19), explained that his testimony includes a $300,000 expense reduction adjustment for future cost containment efforts. Now that such efforts are being identified, he was uncomfortable with making specific adjustments to reflect those efforts. (See deposition pages 44 - 46).

Q. IS MR. GRIFFIN'S $300,000 REDUCTION IN COST OF SERVICE RELATED TO LABOR COSTS?

A. Only in part. On page 46 of his deposition, Mr. Griffin indicated that he had specifically identified only $100,000 of the savings included in the $300,000 adjustment, none of which was identified with payroll reductions. He stated that he had not identified any of the $200,000 amount.

Notwithstanding Mr. Griffin's uncertainty with regard to the other $200,000 of savings, the $300,000 adjustment included in his testimony relates specifically to service and support overheads relating to services that in the test year were provided to retail and propane subsidiaries. As explained on page 18 of Mr. Griffin's testimony, these subsidiaries were billed $987,000 for service and support overheads in the 1997 actual test year. Now that those subsidiaries have been sold, Mr. Griffin has proposed an adjustment, at 85% of $987,000, or $839,000 to include such costs in rates. As explained further on page 19 of his testimony, the $300,000 adjustment reduces the $839,000 to $539,000, and the $300,000 is specifically identified as 35.7% of the $839,000 amount . Furthermore, on page 47 of his deposition, Mr. Griffin explained that the Company put forward the $300,000 as a show of good faith that it was trying to reduce its costs, and that GMP realizes costs are rising in the overhead area.

The largest components of service and support ov
on leasehold improvements, utilities and labor from certain internal departments . . .

Based on the previous discussion, it does not appear that labor is a significant portion of the

Q. WOULD IT BE APPROPRIATE TO REFLECT A PAYROLL ADJUSTMENT IN THIS

1-144?

A.

intention to eliminate 24 positions by the end of the year through early retirements and voluntary buyouts. On page 49 of his deposition on that same day, Mr. Griffin stated, “The company is

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The Company has further reduced its request by approximately $300,000, to
———— $539,000 (35.7% of ~~$859,000~~
containment efforts.

Mr. Griffin agreed to these corrections on page 18 of his deposition.

working towards a goal of eliminating 24 positions which could include contract positions by the end of the year."

While Mr. Griffin was unable to quantify the effect of these position eliminations, the Board should determine that it is appropriate to reflect, in rates, the full effect of the Company's announced goal of eliminating 24 positions by year-end 1998. It is well-known that GMP is actively seeking ways of reducing costs. Many of those mechanisms are in formative stages at this time, and cannot be quantified. In lieu of complete accounting by GMP, an adjustment should be made to reduce costs by the effect of eliminating 22 positions[\6], as well as by the effect of position reductions already reflected on the Company's books as of July 4. In other words, the appropriate adjustment consists of (i) the reduction in cost computed by the Company in its response to DPS 1-144 and (ii) the effect of an additional 22 position reduction, because 2 of the 24 positions were already eliminated in the July payroll.

Q. SHOULD THE ADJUSTMENT INCLUDE THE EFFECT OF CONTRACT POSITIONS?

A. Yes, it should. Mr. Griffin claimed that some of the 24 position reduction *may* be from contractor ranks, but could not say for sure. In any event, if GMP reduces positions from paid contractor ranks, the effect of that should be a benefit and that benefit should be counted in this proceeding.

[\6] 24 positions announced, less 2 positions that Mr. Griffin claimed were already reflected in the July 4 payroll.

WILL ANY COSTS BE INCURRED IN ACCOMPLISHING THE 24 POSITION REDUCTION?

There may be. In his deposition (page 58), Mr. Griffin stated that there may not be any net savings in the rate year because, with voluntary service programs and retirement incentives,

pension and post retirement health care benefits." Nonetheless, GMP's position appears to be that the Board should simply ignore GMP's announced goal of reducing positions.

the Company would eliminate them. It is possible that, in total, the cost savings in 1999 will be relatively small, but considerably greater in future years. In the absence of firm information from

Company comes forward with the cost of implementing the savings, those costs should be considered by the Board for deferral and amortization treatment.

WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A.

MDD-1 Sch. 17 page 1, that amount consists of adjustments to the number of full-time equivalent employees (Line 4), and the percentage salary and wage increase (Line 9).

Q. PLEASE EXPLAIN WHY EXHIBIT MDD-1 SCHEDULE 17 PAGE 1 LINE 4 REFLECTS AN ADJUSTMENT FOR 28 POSITIONS, RATHER THAN THE 22 POSITIONS DISCUSSED EARLIER.

A. On page 5 of his prefiled testimony, Mr. Griffin indicates that the number of full-time equivalent ("FTE") positions consistent with his pro forma 1999 position is 323. GMP's Level 2/3 report for March 1998 indicates that the Company had 320 full-time and 7 part-time employees. GMP's practice is to count each part time employee as one-half of a FTE; therefore, as of March 1998, the Company had 323.5 FTEs. By May 1998, GMP had reduced its employee rolls to 314 full-time and 7 part-time employees, for a total of 317.5 FTEs. Thus, before the announcement that an additional 24 positions would be eliminated, GMP had already reduced its rolls by 6 FTEs. During his deposition, Mr. Griffin indicated that 2 of the 24 positions had already been eliminated in the July payroll. While those 2 positions may have not been eliminated in the May payroll, I have assumed that they were, thereby limiting the adjustment to 28 positions (24 announced, 6 already occurred, less 2 assumed already to have occurred) rather than 30 positions (24 announced, 6 already occurred).

I. PITW

Q.

MEDICAL COSTS.

A.

•

1994 through 1997 as the starting point for its medical expense computation.

the medical expense per employee in 1994 through 1996 was then inflation-adjusted to

•

years, to reflect a claimed expense level for rate year 1999.

SHOULD THE BOARD ADJUST GMP'S COMPUTATION?

Yes, it should. At least three adjustments are necessary:

as a minor item, while the average cost per FTE for 1997 shown on GMP workpaper COS

compound 5.5% per year increase was $4,043. No explanation was given for this

workpapers (see Ex. MDD-1 Sch. 17 p.4 Line 10).

GMP's pro forma expense is based on a headcount of 327 employees (see GMP workpaper average FTE of 323 in rate year 1999. At a minimum, GMP's computation should be adjusted to reflect this lower headcount. However, in addition, the adjustment should be reduced to reflect the current estimate of headcount for 1999 including the announced 24 employee reduction. This adjustment is necessary *both* with respect to medical expense and with respect to payroll taxes (See Ex. MDD-1 Sch. 17 p.1 Line 4 and Sch. 17 p.5 Line 5).

3. The assumed medical cost inflation rate for 1998 and 1999 is 5.5% per year. In contrast, the actual cost per FTE actually declined from 1995 to 1996 to 1997, although it must be acknowledged that there was a sharp increase from 1994 to 1995. It bears repeating that GMP is in a position of having to control its costs. A rate of increase of 3% per year, which is more in keeping with recent changes in the CPI-U, should be utilized to develop *pro forma* medical costs (see Ex. MDD-1 Sch. 17 p.4 Lines 15 through 20).

Finally, FICA taxes are computed by multiplying an average effective FICA rate by the pro forma payroll expense in the rate year. FICA tax expense should be adjusted consistent with other adjustments to payroll expense. This adjustment is provided on Ex. MDD-1 Sch. 17 p.5.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATIONS?

A. In its filing, GMP proposes to increase gross medical costs from $1,364,833 to $1,761,235[\7] (see GMP workpaper COS 3-1 and Ex. MDD-1 Sch. 17 p.3 Line 9). As shown on Ex. MDD-1

\7 "Gross" means total cost before application of the expense/cost ratio.

Sch. 17 page 4, my recommendation is that the level of gross medical costs should be increased

all PITW costs are multiplied by the expense/cost ratio. The expense/cost ratio applied to PITW

that ratio, based on my recommendations concerning payroll costs. In total, excluding payroll

$115,000. Because of the reduction in number of employees, the payroll tax expense adjustment

recommended payroll tax expenses total almost $800,000 (see Ex.MDD-1 Sch. 17 p.5).

Q.

EXPENSE PROPOSED BY GMP?

Yes. In response to DPS 1-112, GMP indicated that, while it did not pay any success sharing

books. Accordingly, the Company indicated that it would reduce its cost of service filing by

this would be an adjustment to the "Special Adjustments" reflected on Exh. AJK-1 page 8.

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That adjustment affects the filing in several places. First, the $128,000 "special adjustment" on Exh. AJK-1 page 8 should be increased to $159,000. That adjustment reduces *pro forma* expense. Second, the MIP adjustment is deducted from actual test year payroll expense in computing the pro forma salary and wage adjustment. Since that adjustment is computed by subtracting the now reduced actual salary and wages from the *pro forma* salary and wages projected for the 1999 rate year, this adjustment increases cost of service. Therefore, the combined effects of this $31,250 correction to GMP's filing are quite small. Nonetheless, this correction is included in my computations.

K. Earnings of Affiliate Companies

Q. EXHIBIT AJK-1 PAGE 6 INCLUDES AN ADJUSTMENT THAT REDUCES THE LEVEL OF EQUITY IN PHASE II EARNINGS BY $67,000. IS GMP'S ADJUSTMENT APPROPRIATE?

A. While GMP's adjustment to reduce earnings appears to be consistent with the projected decline in earnings from these affiliates, a matching adjustment to reduce rate base to reflect a declining investment should also be made.

PLEASE EXPLAIN WHY.

A.

companies is projected to decline from 1998 through 2001. GMP responded:

Agai as the assets in the Phase II companies decrease over time, the capitalization is

In other words, the reduction in earnings is a result of declining investment. GMP's filing includes the decline in earnings, but excludes the corresponding decline in investment. In part f

well? GMP responded:

Yes. vestment in Phase II is based on the test year 13 month average balance.

unadjusted.

"Past practices" do not justify an inequitable treatment in which the Company projects forward a

decline in investment as a reduction of rate base. The same assumption – declining investment – should be reflected in rate base as well as in operating earnings.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. GMP's *pro forma* adjustment reduces earnings by $67,000 from a level of $426,000. This is a 15.7% reduction in earnings. The related rate base, which GMP elected not to adjust, is $3,007,000. That rate base should similarly be reduced by 15.7%, for a reduction of $473,000 (see Ex. MDD-1 Sch. 19).

Q. IS YOUR ADJUSTMENT CONSISTENT WITH HISTORICAL CHANGES THAT HAVE OCCURRED IN GMP'S INVESTMENT IN PHASE II COMPANIES?

A. Yes, it is. Page 50 of GMP's Level 2/3 report for December 1997 reflects the following balances, from which the changes in balances is computed:

Phase II Companies
($000s)

Investment	Reduction in Investment	
December 31, 1995	$3,304,307	
December 31, 1996	3,095,836	$208,471
December 31, 1997	2,873,917	221,919

Based on this information, the investment is declining at approximately $215,000 per year and the rate of decline may be increasing. The average annual effect of the adjustment that I recommend is $237,000, which appears reasonable in relationship to the historic decline in investment in Phase II companies.

L. Property Tax

WHY DO YOU RECOMMEND AN ADJUSTMENT TO PROPERTY TAX EXPENSE?

A.

taxes in one city where it has significant property holdings. In addition, the response indicates

that, with more current data, the property tax values for the 1997-8 period have changed in a

pro

forma

reducing its property tax claim. I have prepared a computation of the change in property tax,

based on the methodology reflected in the Company's original filing.

WHAT IS THE EFFECT OF THIS ADJUSTMENT?

A.

Reflecting the new 1997-8 values in the adjustment reduces the increase to $219,000.

Q.

ADJUSTMENT FOR SEARSBURG SIMILAR TO THAT CONTAINED IN GMP'S

COMPUTATION OF PROPERTY TAX EXPENSE.

In GMP's original computations, Searsburg was assessed at $2.16 million, because Searsburg

was only in service for part of the base year. Therefore, to fully reflect Searsburg property taxes, response to IBM 8-496, which is the source of the values for my recommended adjustment, Searsburg is already included at the full assessed value on GMP's original workpapers. Therefore, there is no necessity to have a separate adjustment to reflect the increase in Searsburg's assessed value. Accordingly, my computation does not include that separate adjustment.

M. FERC Headwater Expense

Q. HAS GMP INCLUDED FERC HEADWATER EXPENSES IN ITS FILING?

A. Yes, it has. GMP has included $13,122 of amortization expense in its *pro forma* filing. Page 8 of Mr. Kvedar's testimony states that this amortization is included in depreciation expense.

Q. IS THIS REQUEST SIMILAR TO THAT MADE BY GMP IN DOCKET NO. 5983?

A. Yes, it is. In response to DPS 3-13, GMP indicated that:

a. the $13,122 is for the same payments that GMP had not made at the time of Docket No. 5983.

b. none of the payments have been made.

c. the filing includes no deferred balance associated with the headwater benefit [in contrast to GMP's filing in Docket No. 5983, which included $516,000 in rate base].

d. there is no additional fact or information that would support inclusion of these costs in rates at this time, that differs from the facts and/or information available in Docket No. 5983.

As discussed starting on page 73 of the Order in Docket No. 5983, GMP in that proceeding sought inclusion of $516,000 in rate base and $16,401 in amortization for headwater expenses.

seeking refund of previous payments it hade made to FERC, with interest. The Department opposed including either amount in rates, and the Board concurred.

SHOULD THE HEADWATER EXPENSES BE EXCLUDED FROM RATES IN THIS PROCEEDING?

Yes, they should. While the amount and treatment are somewhat different from Docket No. 5983, GMP could point to no fact or information that would support inclusion of these costs in

excluded from rates. In view of the lack of any additional justification from the proceeding that ended only a few months ago, in which the Board did not include headwater benefit amortization

proceeding. This expense is removed in my computations on Ex. MDD-1 Sch. 12 p.1 Line 15.

N. Insurance Recovery

Q. HOW HAS GMP INCLUDED ITS COSTS AND RECOVERY OF COSTS CONCERNING THE PINE STREET REMEDIATION IN THIS PROCEEDING?

A. The filing includes no amortization of Pine Street costs. However, Exhibit AJK-1 page 7, rate base, includes $8,044,000 of unamortized costs for remediation investigation and site studies, superfund payments and insurance litigation (see GMP workpaper RB 8-1). In addition, the filing includes deferred credits, which reduce rate base, resulting from insurance recoveries of costs that will be incurred to remediate the Pine Street site.

Q. DOES THE FILING INCLUDE ALL INSURANCE RECOVERIES THAT GMP HAS RECEIVED?

A. No, it does not. A comparison of the amounts reflected in the filing to the Company's response to DPS 2-397, as well as to the Company's monthly Level 2/3 reports indicates that the filing does not include all of the balance associated with Pine Street recoveries. Specific adjustments that should be made include:

1. The recoveries included in GMP's filing are in two locations. In one, the Company has reflected the 13-month average of recoveries during the test year. In the second, the Company has reflected additional recoveries received after the end of the test year. In this manner, rate base in the 1999 rate year is overstated, by failing to reflect the full amount of recoveries received in the last two months of the 1997 test year.

2. The level of additional recoveries after the test year, as incorporated in GMP's filing, is below the level of recoveries reflected on the Company's books in the Level 2/3 reports.

Correction of both of these amounts increases the deferred credit reduction to rate base by $2,334,000. In addition, however, consistent with the use of May 1998 data for the rate base deduction for deferred credits, I have also reflected an increase in deferred GMP costs as an addition to the Pine Street deferred debit (See Ex. MDD-1 Sch. 24).

O. Power cost

Q. WHAT ADJUSTMENTS TO POWER COST ARE INCLUDED IN YOUR COMPUTATION OF REVENUE REQUIREMENTS?

A. All of the power cost adjustments are summarized on Ex. MDD-1 Sch.22 p.2.

Mr. Lamont has made a number of recommendations concerning capacity sales and transactions with Hydro-Quebec. These adjustments, which reduce purchased power expenses by $5,824,000 and resale credits by $4,120,000, are reflected on Ex. MDD-1 Sch. 21. That schedule also reflects Mr. Lamont's recommendation that Vermont Yankee outage-related expenses be reduced by $30,000.

Dr. Steinhurst has filed testimony in this proceeding in which he recommends that GMP's costs for power purchased from Hydro-Quebec should be reduced by $22.4 million. However, in order to provide additional cash relief to the Company, the Department's final recommendation includes only a $9.5 million disallowance of Hydro-Quebec costs. That recommendation is reflected on Ex. MDD-1 Sch. 22 page 1.

Finally, Dr. Steinhurst has also recommended that GMP increase its expenditures for transmission and distribution maintenance by $1 million per year. That recommendation is incorporated in my computation of revenue requirements at Ex. MDD-1 Sch. 5 Line 15.

P. DSM and ACE

Q. WHAT ADJUSTMENT IS REFLECTED IN YOUR TESTIMONY CONCERNING DSM AND ACE COSTS?

A. GMP's filing reflects pro forma expense and balances for DSM and ACE as follows:

($000s)

	DSM	ACE	GMP workpaper
Amortization expense	$3,637	$1,174	COS 13-1
Unamortized balance in rate base	5,816	810	RB 17-1
Deferred tax deduction from rate base	2,369	330	RB 15-1

In their testimonies, the Department's DPS and ACE witnesses recommend that the DSM and ACE deferred balances should be reduced by $94,770 and $76,845, respectively. These recommendations, which affect rate base and amortization expense, are reflected on Ex. MDD-1 Sch. 20.

Q.

A. Yes, it does.